

MONTICELLO INDEPENDENT SCHOOL DISTRICT

**Basic Financial Statements and Supplementary
Information**

Year ended June 30, 2013

MONTICELLO INDEPENDENT SCHOOL DISTRICT

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MONTICELLO INDEPENDENT SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Kentucky Board of Education
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Monticello Independent School District (the "District") as of June 30, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. As described in Note M to the financial statements, the District, effective July 1, 2013 was merged with the Wayne County Board of Education and Monticello Independent School District did not continue operations beyond that date.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Auditor's Responsibility (continued)

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Monticello Independent School District as of June 30, 2013 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and pages 41 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statement of revenues, expenditures and changes in due to/from other student groups is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. office of Management and Budget circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The statement of revenues, expenditures and changes in due to/from other student groups and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of revenues, expenditures and changes in due to/from other student groups and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of Monticello Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Maunty Chilton Moody, LLC". The signature is written in a cursive, flowing style.

Lexington, Kentucky
October 31, 2013

**MONTICELLO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

As management of the Monticello Independent School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,130,998 in 2013 and \$(224,878) in 2012. This represents an increase of \$1,355,876. The difference is primarily attributable to a loan received from KDE in order to maintain district viability for the 2012-2013 school year. This loan was to be paid back over a period of five years.
- As of July 1, 2013, Monticello Independent Board of Education merged with the Wayne County Board of Education. This was due to the lack of a balanced budget for the FYE 2013, ending the year in a deficit, and not being able to prepare a balanced budget for FYE 2014 that would be able to provide the required programs for the students.
- From 2012 to 2013, total General Fund revenue decreased, due primarily to a stagnant economy and loss of approximately 100 students which caused a loss of revenue from state sources. The District did not reduce staff being paid from federal grant funds which had been fully expended in 2011-2012 and not renewed in 2012-2013.
- Among major funds, the General Fund had approx. \$5.8 million in revenue, which consisted primarily of local property, utilities, and motor vehicle taxes, state funding, and on-behalf payments. There were \$4.8 million in expenditures. This does not include the negative \$350,000 beginning fund balance. The \$1.1 million loan from KDE was used to pay Payroll costs in Fund 2 that would have normally been recorded in the General Fund.
- The composition of the Board of Education changed from the prior year. A new board member was elected & installed in January 2013.
- The District maintained its long-range plan for facilities during fiscal year 2013.
- At times, bonds are issued as the District renovates and builds new facilities, consistent with the long-range facility plan and in keeping with Kentucky Department of Education's (KDE's) stringent compliance requirements. No new bonds were issued in 2013; however, the district continued to make scheduled payments on all existing bonds in accordance with its pre-authorized amortization schedule.
- The District experienced turn-over of personnel at the Superintendent and Finance Officer level; however, many other employees have been in place to assure continuity and consistency regarding the ongoing instructional and financial affairs of the District.
- The Commonwealth of Kentucky received State Fiscal Stabilization Funds as part of the American Recovery and Reinvestment Act (ARRA), and those funds have been allocated to the District as a restricted grant, in lieu of General Fund Revenue. This will continue for a two-year period and the reclassification creates some distortion in comparing General Fund revenue and expenses to prior years. The same is true in the reverse for the Special Revenue Funds.

**MONTICELLO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

- The Kentucky General Assembly authorized use of restricted Capital Outlay funds to be used for District property insurance and maintenance costs. Consequently, that category of expense within the General Fund is less than in prior years.
- The Kentucky Department of Education mandated a state-wide Chart of Accounts migration during the 2012-2013 year. Numerous accounts were re-categorized to more closely match the intended function and program, so the summary reporting of some expenditures do not precisely mirror prior years, making comparisons a bit more challenging.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues. The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

The government-wide financial statements can be found on pages 11 - 12 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts, utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. At this time, the District's fiduciary funds are limited to student activity funds. The proprietary fund includes the food service operations. All other activities of the District are included in the governmental funds.

**MONTICELLO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

The basic governmental fund financial statements can be found on pages 13 - 17 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Monticello Independent District, assets exceeded liabilities by \$ 3.59 million.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**MONTICELLO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Net Assets for the period ending June 30, 2013

The District is following GASB 34 and comparing assets, liabilities, and net assets. 2013 Government Wide Net Assets compared to 2012 are as follows:

Table One:
Net Assets

Description	2012	2013
Current Assets	\$ 590,859.00	\$ 1,150,800.00
Noncurrent Assets	\$ 9,548,754.00	\$ 8,969,072.00
Total Assets	\$ 10,139,613.00	\$ 10,119,872.00
Current Liabilities	\$ 851,339.00	\$ 1,558,924.00
Noncurrent Liabilities	\$ 5,401,923.00	\$ 4,970,000.00
Total Liabilities	\$ 6,253,262.00	\$ 6,528,924.00
Net Assets		
Investment in Capital Assets (net of debt)	\$ 3,583,704.00	\$ 3,644,072.00
Restricted Fund Balances	\$ 640,190.00	\$ -
Unrestricted Fund Balances	\$ (337,543.00)	\$ (53,124.00)
Total Net Assets	\$ 3,886,351.00	\$ 3,590,948.00

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

KDE provided a loan of \$1.1 million to allow the District to continue operations, pay bills & claims, Bond & interest payments, and payroll for 2012-2013.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary Implications

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's budget is prepared according to Kentucky law and is based upon certain transactions on a basis of cash receipts, disbursements, and encumbrances. In Kentucky, the public school fiscal year is July 1 through June 30. Some programs relating to federal and state grants operate on a different fiscal year, but are, nevertheless, reflected in the overall budget. The Board, in compliance with statute, adopts a tentative budget by the end of May for the subsequent year. A working budget is adopted by the end of September for each fiscal year, following the determination of the enrollment at the beginning of the new school year, the tax assessments and rates that will be used to determine the property tax revenues and the salary expense for new employees and newly created positions.

**MONTICELLO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

The most significant budgeted fund is the General Fund. By law, the budget for the General Fund must have a minimum 2% contingency, based upon expenses for all non-construction funds. The Board was unable to adopt a balanced working budget for fiscal year 2013 that could be approved by KDE.

Generally, there are no major subsequent adjustments to the budget adopted in September. Additional grants, however, as a part of the Special Revenue Fund, are added if/when they are awarded.

Comments on Budget Comparisons

- Since a balanced General Fund budget could not be prepared, there cannot be a comparison of budget to actual revenue and/or expenditures for 2012-2013.
- Inter-fund transfers occur in order to record the expenditure in the appropriate fund. Detail regarding those transfers can be found in Note L on page 36.

**MONTICELLO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

The following table presents an accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2012 and 2013.

Table Two:
Revenue and Expense Summary

	FYE 2012	FYE 2013
Revenues		
Taxes	\$ 674,756	\$ 670,629
State Sources	\$ 6,447,055	\$ 6,040,398
Federal Sources	\$ 1,100,164	\$ 1,036,249
Other sources	\$ 740	\$ -
	<hr/>	<hr/>
Total Revenues	\$ 8,222,715	\$ 7,747,276
Expenditures		
Instructional	\$ 5,486,209	\$ 4,869,875
Student support	\$ 40,161	\$ 343,331
Staff Support	\$ 112,751	\$ 77,358
District Administration	\$ 705,987	\$ 484,589
School Administration	\$ 11,476	\$ 310,263
Business Support	\$ 20,122	\$ 326,399
Operations & Maintenance	\$ 605,650	\$ 399,888
Student Transportation	\$ 469,451	\$ 379,996
Community Service	\$ 79,126	\$ 78,638
Facilities	\$ 374,390	\$ -
Debt Service	\$ 583,272	\$ 560,109
	<hr/>	<hr/>
Total Expenditures	\$ 9,288,595	\$ 7,830,446
Excess (deficit) of revenues over expenditures	\$ (1,065,880)	\$ (83,170)
Other Financing sources		
Proceeds from sale of assets	\$ -	\$ 2,540
Operating transfers in	\$ 42,016	\$ 1,970,930
Operating transfers out	\$ (14,996)	\$ (1,970,930)
	<hr/>	<hr/>
Total other financing sources	\$ 27,020	\$ 2,540
Net change in Fund Balances	\$ (1,038,860)	\$ (80,630)
Fund balance - beginning of year (2013 restated)	\$ 1,493,177	\$ 76,106
Fund balance - end of year	<u>\$ 454,317</u>	<u>\$ (4,524)</u>

- The changes in the balances and transactions of individual funds, except as noted herein, have not been material. Please note the aforementioned KDE loan of \$1.1 million.

**MONTICELLO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Funds were allocated to the schools by a series of formulas designed to meet their students' instructional needs. Site Based Decision Making (SBDM) Councils exercise site authority regarding spending priorities, staffing, and program needs. Budget allocations to SBDM's are based upon average daily attendance, average daily membership, and data-driven needs. Consequently, the budgeted amounts and categories of expenditures are modified each year to reflect site-based numbers and priority of needs. The majority of the Non-SBDM funds were allocated for transportation, and services for children with special needs. The remaining portion was budgeted for district-wide initiatives and central support services.

The high percentage of expenditures that has been allocated to personnel costs underlines the District's commitment to improving student achievement. It has been well documented that direct teacher-to-student instruction has the greatest impact on educational success.

Business-Type Activity

The business-type activity of the District is the food service program.

- Revenues for food service operations come primarily from sales to students and others, plus federal and state contributions. The federal government also contributes commodities to assist with the cost of food served. Ignoring equipment depreciation, the program ended the year with a positive balance.

Contacting the District's Management

This financial report is designed to provide our citizens, taxpayers, and creditors with the general overview of the District's finances and to reflect the District's accountability for the funds it receives. More detailed information regarding the component units is available in the separately issued financial statements, attached herewith. Questions or comments regarding this report should be directed by mail to: Ms. Kay Kennedy, 500 Mero Street, Capital Plaza Tower, 15th Floor, Frankfort, KY 40601.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,130,741	\$ 257	\$ 1,130,998
Inventory	-	5,687	5,687
Accounts receivable			
Other receivables	14,115	-	14,115
Total current assets	1,144,856	5,944	1,150,800
Noncurrent Assets			
Capital assets, net	8,187,901	5,671	8,193,572
Nondepreciable capital assets	775,500	-	775,500
Total noncurrent assets	8,963,401	5,671	8,969,072
Total assets	10,108,257	11,615	10,119,872
LIABILITIES			
Current liabilities			
Interest payable	54,544	-	54,544
Current portion of long term liabilities	355,000	-	355,000
Deferred Revenue	23,084	-	23,084
Other current liabilities	1,126,296	-	1,126,296
Total current liabilities	1,558,924	-	1,558,924
Noncurrent liabilities			
Noncurrent portion of long term liabilities	4,970,000	-	4,970,000
Total noncurrent liabilities	4,970,000	-	4,970,000
Total liabilities	6,528,924	-	6,528,924
NET POSITION			
Invested in capital assets, net of related debt	3,638,401	5,671	3,644,072
Unrestricted deficit	(59,068)	5,944	(53,124)
Total net position	\$ 3,579,333	\$ 11,615	\$ 3,590,948

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Instruction	\$ 4,861,163	\$ -	\$ 1,023,672	\$ (3,837,491)	\$ -	\$ (3,837,491)
Support services:						
Student	357,905	-	-	(357,905)	-	(357,905)
Instruction staff	82,560	-	-	(82,560)	-	(82,560)
District administration	501,479	-	-	(501,479)	-	(501,479)
School administration	312,953	-	-	(312,953)	-	(312,953)
Business	327,721	-	-	(327,721)	-	(327,721)
Plant operation and maintenance	634,486	-	-	(634,486)	-	(634,486)
Student transportation	397,347	-	-	(397,347)	-	(397,347)
Community service activities	78,638	-	12,577	(66,061)	-	(66,061)
Interest on Long-term Debt	237,304	-	-	(237,304)	-	(237,304)
Total governmental activities	7,791,556	-	1,036,249	(6,755,307)	-	(6,755,307)
Business-Type Activities:						
Food service and summer feeding	388,503	45,065	347,898	-	4,460	4,460
Total business-type activities	388,503	45,065	347,898	-	4,460	4,460
Total primary government	\$ 8,180,059	\$ 45,065	\$ 1,384,147	\$ (6,755,307)	\$ 4,460	\$ (6,750,847)
General Revenues:						
Property Taxes				\$ 216,182	\$ -	\$ 216,182
Motor vehicle taxes				42,992	-	42,992
Utility taxes				333,271	-	333,271
Other taxes				4,732	-	4,732
Investment earnings				25	-	25
Other local revenues				73,427	-	73,427
State aid formula grants				5,409,005	-	5,409,005
Loss on disposal of assets				(168,897)	(8,979)	(177,876)
Other State Sources				631,393	453	631,846
Total general revenues				6,542,130	(8,526)	6,533,604
Change in net position				(213,177)	(4,066)	(217,243)
Net position beginning of year (restated)				3,792,510	15,681	3,808,191
Net position ending				\$ 3,579,333	\$ 11,615	\$ 3,590,948

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Special Revenue Fund	Building Fund	Construction Fund (Nonmajor)	Debt Service Fund (Nonmajor)	Capital Outlay (Nonmajor)	Total Governmental Funds
Assets and resources							
Cash and cash equivalents	\$ 1,121,772	\$ 8,969	\$ -	\$ -	\$ -	\$ -	\$ 1,130,741
Accounts receivable							
Intergovernmental - Federal	-	14,115	-	-	-	-	14,115
Total assets and resources	<u>\$ 1,121,772</u>	<u>\$ 23,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,144,856</u>
Liabilities and fund balances							
Liabilities							
Accrued payroll and related liabilities	\$ 26,296	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,296
Deferred revenue	-	23,084	-	-	-	-	23,084
Contract Payable	1,100,000	-	-	-	-	-	1,100,000
Total liabilities	<u>1,126,296</u>	<u>23,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,149,380</u>
Fund balances							
Unassigned	(4,524)	-	-	-	-	-	(4,524)
Total fund balances	<u>(4,524)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,524)</u>
Total liabilities and fund balances	<u>\$ 1,121,772</u>	<u>\$ 23,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,144,856</u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
June 30, 2013

Total fund balance per fund financial statements \$ (4,524)

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position. 8,963,401

Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position. (5,379,544)

Net position for governmental activities \$ 3,579,333

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	General Fund	Special Revenue	Building Fund	Construction Fund (Nonmajor)	Debt Service Fund (Nonmajor)	Capital Outlay (Nonmajor)	Total Governmental Funds
Revenues							
From local sources							
Property taxes	\$ 177,982	\$ -	38,200	\$ -	\$ -	\$ -	\$ 216,182
Motor vehicle taxes	42,992	-	-	-	-	-	42,992
Utilities taxes	333,271	-	-	-	-	-	333,271
Other taxes	4,732	-	-	-	-	-	4,732
Earnings on investments	25	-	-	-	-	-	25
Other local revenues	73,427	-	-	-	-	-	73,427
State sources							
SEEK	4,244,640	-	-	-	-	-	4,244,640
On-behalf revenues	907,081	-	-	-	257,284	-	1,164,365
Other	22,436	294,025	238,579	-	-	76,353	631,393
Federal - indirect	12,577	1,023,672	-	-	-	-	1,036,249
Total revenues	5,819,163	1,317,697	276,779	-	257,284	76,353	7,747,276
Expenditures							
Instruction	2,670,444	2,199,431	-	-	-	-	4,869,875
Support services:							
Student	343,331	-	-	-	-	-	343,331
Instruction staff	64,676	12,682	-	-	-	-	77,358
District administration	484,589	-	-	-	-	-	484,589
School administration	310,263	-	-	-	-	-	310,263
Business	326,399	-	-	-	-	-	326,399
Plant operation and maintenance	355,296	44,592	-	-	-	-	399,888
Student transportation	297,634	82,362	-	-	-	-	379,996
Community service activities	-	78,638	-	-	-	-	78,638
Debt service	-	-	-	-	560,109	-	560,109
Total expenditures	4,852,632	2,417,705	-	-	560,109	-	7,830,446
Excess (deficit) of revenues over expenditures	966,531	(1,100,008)	276,779	-	(302,825)	76,353	(83,170)

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)****Year Ended June 30, 2013**

	General Fund	Special Revenue	Building Fund	Construction Fund (Nonmajor)	Debt Service Fund (Nonmajor)	Capital Outlay (Nonmajor)	Total Governmental Funds
Other financing sources (uses)							
Proceeds from sale of equipment	2,540	-	-	-	-	-	2,540
Operating transfers in	477,423	1,100,008	-	90,674	302,825	-	1,970,930
Operating transfers out	(1,100,009)	-	(656,305)	-	-	(214,616)	(1,970,930)
Total other financing sources (uses)	(620,046)	1,100,008	(656,305)	90,674	302,825	(214,616)	2,540
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	346,485	-	(379,526)	90,674	-	(138,263)	(80,630)
Fund balances (deficit) July 1, 2012 (restated)	(351,009)	-	379,526	(90,674)	-	138,263	76,106
Fund balances (deficit) June 30, 2013	\$ (4,524)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,524)

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Net change in total fund balances per fund financial statements	\$ (80,630)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources but they are presented as assets and depreciated over their estimated useful lives in the district-wide statements.

Book Value Disposed Assets	(171,437)
Depreciation Expense	(398,235)

Reduction of Accrued Sick and Vacation Leave	114,320
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Bond payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the Statement of Net Position.

Bond Principal Payments	340,000
Change in Accrued Interest Payable	<u>(17,195)</u>

Change in net position of governmental activities	<u><u>\$ (213,177)</u></u>
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See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2013

	<u>Food Service and Summer Feeding Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 257
Inventory	<u>5,687</u>
Total current assets	<u>5,944</u>
Noncurrent assets	
Capital Assets	29,765
Less: accumulated depreciation	<u>(24,094)</u>
Total noncurrent assets	<u>5,671</u>
Total assets	<u><u>\$ 11,615</u></u>
NET POSITION	
Invested in capital assets, net of related debt	5,671
Nonspendable - Inventories	5,687
Unrestricted	<u>257</u>
Total net position	<u><u>\$ 11,615</u></u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY
FUNDS
Year Ended June 30, 2013

	<u>Food Service And Summer Feeding Fund</u>
Operating revenues	
Lunchroom sales	\$ 45,065
Other operating revenues	<u>453</u>
Total operating revenues	<u>45,518</u>
Operating expenses	
Salaries and wages	212,201
Contract Services	5,974
Materials and supplies	169,063
Other operating	234
Depreciation	1,031
Loss on Disposal of Fixed Assets	<u>8,979</u>
Total operating expenses	<u>397,482</u>
Operating loss	(351,964)
Non-operating revenues (expenses)	
Federal grants	306,736
Donated commodities	4,053
State grants and on-behalf revenues	<u>37,109</u>
Total non-operating revenues	<u>347,898</u>
Net loss	(4,066)
Net position beginning of year	<u>15,681</u>
Net position end of year	<u><u>\$ 11,615</u></u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2013

Cash Flows from Operating Activities

Cash Received From:

Lunchroom Sales	\$	45,065
Other Activities		453

Cash Paid To/For:

Employees	(212,201)
Supplies	(150,917)
Other operating activities	(6,208)

Net cash used in operating activities	<u>(323,808)</u>
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Cash Flows from Noncapital Financing Activities

Nonoperating grants received	<u>343,845</u>
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Net cash provided by noncapital financing activities	<u>343,845</u>
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Net increase in Cash and Cash Equivalents	20,037
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Balances - beginning of year	<u>(19,780)</u>
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Balances - end of year	<u><u>\$ 257</u></u>
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Reconciliation of Operating Loss to Net Cash Used
in Operating Activities

Operating Loss	\$	(351,964)
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Adjustments to Reconcile Operating Income to Net Cash Used
in Operating Activities:

Depreciation	1,031
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Loss on disposal of fixed asset	8,979
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Change in Assets and Liabilities:

Receivables	
Inventory	14,147
Accounts Payable	(54)

Net Cash Used in Operating Activities	<u><u>\$ (327,861)</u></u>
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SCHEDULE OF NON-CASH TRANSACTIONS

Donated commodities received from federal government	<u><u>\$ 4,053</u></u>
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See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	Agency Fund
Assets	
Cash and cash equivalents	\$ 41,894
Total assets	<u>\$ 41,894</u>
Liabilities	
Due to student groups	\$ 41,894
Total liabilities	<u>\$ 41,894</u>

See accompanying notes to financial statements.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Monticello Independent Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Monticello Independent School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

On December 17, 2012 the Monticello Independent Board of Education voted to become a state managed district pursuant to KRS 158.785(7)(a). All administrative, operational, financial, personnel and instructional aspects of the management of the school district formerly exercised by the local school board and the superintendent were exercised by the chief state school officer, or such designee. See Note M. – Merger with Wayne County Board of Education.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Monticello Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as booster organizations, parent-teacher associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or are dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

The accounting policies of the Monticello Independent School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Monticello Independent Board of Education Finance Corporation

On November 15, 1993 the Board of Education resolved to authorize the establishment of the Monticello Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency of the District for financing the costs of school building facilities. The members of the Monticello Independent Board of Education also comprise the Corporation's Board of Directors.

On July 1, 2013 both the Monticello Independent Board of Education and Finance Corporation were dissolved. See Note M. – Merger with Wayne County Board of Education.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Basis of Presentation

District-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total net assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balance are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 43. This is a major fund of the District.
- (C) The Building Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
 - 3. The Building Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a nonmajor fund of the District.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service and Summer Feeding Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance. This is a major fund of the District.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

III. Fiduciary Fund Type (Agency Fund)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. With the exception of the Trojan Bank, these funds are primarily accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. The Trojan Bank operates a school bank for the benefit of students and the nature of its operations are not conducive to some of the requirements of the Uniform Program of Accounting for School activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-Exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

Donated Commodities

The fair value of donated commodities used during the year is reported in the proprietary fund statement of revenues, expenses, and changes in net position as an expense and as donated commodities revenue (nonoperating revenue).

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property Taxes

Property Tax Revenues - Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the District. Property taxes attach as an enforceable lien on the property at May 31. The property tax rates assessed for the year ended June 30, 2013 were \$0.326 per \$100 valuation for real property, \$0.326 per \$100 valuation for business personal property and \$0.48.8 per \$100 valuation for motor vehicles.

Property taxes collected are deposited into the General Fund, then transferred and recorded as revenues in the fund for which they were levied.

The following is the District's property tax calendar:

<u>Date</u>	<u>Event</u>
January 1, year of levy	Assessment date
October 1, year of levy	Taxes levied
October 31, year of levy	2% discount allowed
December 31, year of levy	Gross amount due
January 31, following year	5% penalty added
March 2, following year	21% penalty added

Utilities Taxes

The district levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishing, within the District of telephone, cable television, electricity, and water services.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of technology purchases for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Other	10 years

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

- Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Budgetary amendments are made during the year to reflect new revenue sources and the receipt of the District's growth calculation. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

The Food Service Fund's inventories consist of food and supplies valued at cost using the specific identification method, and U.S. Government commodities whose value is determined by the U.S. Department of Agriculture.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, capital leases, accumulated sick leave, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013 the District had no restricted fund balances.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had no committed fund balances as of June 30, 2013.

Assigned fund balances are those amounts that are considered by the government's intent to be used for specific purposes, but are neither restricted nor committed. The District has no assigned fund balances as of June 30, 2013.

Unassigned fund balance is the residual classification for the general fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The District had (\$4,524) in Unassigned fund deficit at June 30, 2013.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Subsequent Events

The District has evaluated events occurring between the end of its most recent fiscal year and the date the financial statements were available to be issued. On July 1, 2013 the Monticello Independent School District merged operations with the Wayne County Board of Education. See Note M – Merger with Wayne County Board of Education.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE B - CASH AND CASH EQUIVALENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's bank balances are covered by Federal Depository Insurance up to \$250,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with an original maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013 consisted of the following:

	Bank Balance	Book Balance
First Southern National Bank	\$ 1,353,331	\$ 1,130,998
First Southern National Bank	\$ 42,269	\$ 41,894

Breakdown per financial statements is as follows:

Governmental funds	\$ 1,130,741
Proprietary funds	257
Fiduciary funds	41,894
	<u>\$ 1,172,892</u>

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
<u>Governmental Activities</u>				
Land	\$ 775,500	\$ -	\$ -	\$ 775,500
Land improvements	837,859	-	-	837,859
Buildings	11,862,574	-	-	11,862,574
Technology	429,995	-	384,999	44,996
Vehicles	784,719	-	-	784,719
General equipment	238,768	-	156,869	81,899
Totals at historical cost	14,929,415	-	541,868	14,387,547
	Balance June 30, 2012	Depreciation	Disposals	Balance June 30, 2013
Accumulated Depreciation				
Land improvements	244,813	5,692	-	250,505
Buildings and improvements	4,002,910	365,396	-	4,368,306
Technology equipment	282,494	4,681	250,959	36,216
Vehicles	685,821	17,512	-	703,333
General equipment	180,304	4,954	119,472	65,786
Total accumulated depreciation	5,396,342	398,235	370,431	5,424,146
Total Governmental Activities	<u>\$ 9,533,073</u>	<u>\$ (398,235)</u>	<u>\$ 171,437</u>	<u>\$ 8,963,401</u>
	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
<u>Business-Type Activities</u>				
Food service equipment	\$ 119,987	\$ -	\$ 90,222	\$ 29,765
Less: accumulated depreciation	104,306	1,031	81,243	24,094
Total Business-Type Activities	<u>\$ 15,681</u>	<u>\$ (1,031)</u>	<u>\$ 8,979</u>	<u>\$ 5,671</u>

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE C - CAPITAL ASSETS - CONTINUED

Depreciation expense for the year ended June 30, 2013 for governmental activities by function is summarized below:

Instructional	\$ 105,608
Student support	14,574
Instruction staff support	5,202
District administration	16,890
School administration	2,690
Business support services	1,322
Plant operations and maintenance	234,598
Student transportation	<u>17,351</u>
Total	<u>\$ 398,235</u>

NOTE D - BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1994	\$ 385,000	4.00% - 6.00%
2006	4,130,000	3.65% - 4.25%
2006B	365,000	4.13%
2008	1,800,000	2.30% - 3.70%
2011	440,000	2.00% - 4.50%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund), is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Monticello Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Monticello Independent School District and the Kentucky School Facilities Construction Commission.

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE D - BONDED DEBT AND LEASE OBLIGATIONS-CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. As of June 30, 2013 the total bond principal and interest due was \$5,325,000 and \$1,646,639, respectively. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service (principal and interest) are as follows:

	Monticello Independent School District		Kentucky School Facility Construction Commission		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2013-2014	\$ 194,201	\$ 111,693	\$ 160,799	\$ 96,484	\$ 355,000	\$ 208,177
2014-2015	198,631	105,544	141,369	90,220	340,000	195,764
2015-2016	208,647	99,082	146,353	85,236	355,000	184,318
2016-2017	223,483	91,077	151,517	80,072	375,000	171,149
2017-2018	227,633	84,666	157,367	74,223	385,000	158,889
2018-2019	231,515	76,749	163,485	68,105	395,000	144,854
2019-2020	235,117	68,303	169,883	61,705	405,000	130,008
2020-2021	208,288	59,491	176,712	67,987	385,000	127,478
2021-2022	216,142	39,740	183,858	47,732	400,000	87,472
2022-2023	228,492	42,044	191,508	40,081	420,000	82,125
2023-2024	240,408	32,428	199,592	31,996	440,000	64,424
2024-2025	246,982	22,318	208,018	23,570	455,000	45,888
2025-2026	258,117	11,813	216,883	14,705	475,000	26,518
2026-2027	2,811	838	22,189	5,462	25,000	6,300
2027-2028	1,813	711	23,187	4,464	25,000	5,175
2028-2029	5,769	630	24,231	3,420	30,000	4,050
2029-2030	4,680	370	25,320	2,330	30,000	2,700
2030-2031	3,540	159	26,460	1,191	30,000	1,350
	<u>\$ 2,936,269</u>	<u>\$ 847,656</u>	<u>\$ 2,388,731</u>	<u>\$ 798,983</u>	<u>\$ 5,325,000</u>	<u>\$ 1,646,639</u>

During the year ended June 30, 2013 the District made principal payments of \$340,000.

NOTE E – CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE E – CONTINGENCIES (CONTINUED)

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress of the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE F – LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

NOTE G - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, including Workers' Compensation insurance.

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Funds to cover an estimated assessment for KSBIT of \$91,000 were transferred to Wayne County in June 2013.

Contributions to Workers Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term.

The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE I – DEFICIT OPERATING/FUND BALANCES

The following fund ended the year with a deficit balance:

General Fund	(\$4,524)
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The following funds had operations that resulted in a current year deficit of expenditures over revenues, resulting in a corresponding reduction of fund balances:

Building Fund	(\$379,526)
Capital Outlay Fund	(\$138,263)

NOTE J - RETIREMENT PLAN

The Monticello Independent School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by the Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601, or from the KTRS website at <http://ktrs.gov/>.

Funding policy- Contribution rates are established by KRS. Members before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS and members after July 1, 2008 must contribute 10.855%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 13.605% for members hired before July 1, 2008 and 14.105% for those hired after that date.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the members must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employee Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE J - RETIREMENT PLAN - CONTINUED

Funding Policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members' salary for the 2012-2013 fiscal years.

The Monticello Independent School District's total payroll for the year was \$4,832,967. The payroll for employees covered under KTRS was \$3,761,689. For the year ended June 30, 2013, the Commonwealth contributed \$393,981 to KTRS for the benefit of participating employees. The District's contributions to KTRS for the year ended June 30, 2013 were \$37,617 which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer, public employees' retirement system. Funding for CERS is provided through payroll withholdings of 5% for members that entered the plan prior to July 1, 2008 and 6% for individuals that became members after that date and a District contribution of 19.55% of the employees' total compensation subject to contribution. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in Plan documents.

Historical trend information showing KTRS and CERS progress in accumulating sufficient assets to pay benefits when due, is presented in their June 30, 2012 comprehensive annual financial reports.

NOTE K - ON-BEHALF PAYMENTS

For the year ended June 30, 2013 total payments of \$1,197,226 were made for life insurance, health insurance, KTRS matching and administrative fees, debt service payments and purchases of computers by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities. These revenues and expenditures are not budgeted by the District.

NOTE L - TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	KDE Loan	\$ 1,100,000
Operating	General	Special Revenue	Fringe Expense	\$ 8
Operating	Capital Outlay	General	Capital Funds	\$ 214,616
Operating	Building	Debt Service	Debt Service	\$ 302,825
Operating	Building	Construction	Construction	\$ 90,674
Operating	Building	General	Capital Funds	\$ 262,807

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE M – MERGER WITH WAYNE COUNTY SCHOOLS

The Monticello Independent School District entered into an agreement with the Wayne County Board of Education to operate as a merged school district, comprising elementary and secondary grades and such additional schools or departments as are necessary for the education of all the residents of Wayne County. As of July 1, 2013, there shall be one state school district known as the Wayne County Board of Education.

In accordance with the requirements of GASB 69 *Government Combinations and Disposals of Government Operations*, the balances of Monticello Independent School District's assets, liabilities, and net position as of June 30, 2013 were determined on the basis of the carrying values reported in its accounting records.

NOTE N – IMPLEMENTATION OF GASB 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance relative to deferred outflows of resources, a consumption of net assets by the entity that is applicable to a future reporting period, and deferred inflows of resources, an acquisition of net assets by the entity that is applicable to a future reporting period. GASB Statement No. 63 incorporates deferred outflows and inflows of resources into the definitions of the required components of the residual measure, renaming such measure as net position, rather than net assets. The provisions of GASB Statement No. 63 are effective for fiscal periods beginning after December 15, 2011 (the fiscal year ended June 30, 2013 for the Monticello Independent School District). The Monticello Independent School District adopted GASB 63 for the year ended June 30, 2013, the adoption of this standard did not have an impact on the Monticello Independent School District's financial position, results of operations, and/or cash flows.

NOTE O - GRANT

The Kentucky Department of Education granted school improvement funds of \$1,100,000 to the District. The District was unable to meet the required repayment schedule and was merged into Wayne County Board of Education on July 1, 2013. The debt was not transferred upon merger.

MONTICELLO INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE P – RESTATEMENT OF BEGINNING FUND BALANCE

The July 1, 2012 net position, general fund balance and building fund balance required the following restatements:

Restatement of Net Position

Net position July 1, 2012 prior to restatement	\$ 3,870,670
To remove defeased debt escrow account	(115,513)
To correct state accrued interest	37,353
Net position July 1, 2012 (restated)	<u>\$ 3,792,510</u>

Restatement of General Fund Balance

General fund balance July 1, 2012 prior to restatement	\$ (50,959)
To correct presentation of short-term loan	(300,050)
General fund balance July 1, 2012 (restated)	<u>\$ (351,009)</u>

Restatement of Building Fund Balance

Building fund balance July 1, 2012 prior to restatement	\$ 457,686
To remove defeased debt escrow account	(115,513)
To correct state accrued interest	37,353
Building fund balance July 1, 2012 (restated)	<u>\$ 379,526</u>

REQUIRED SUPPLEMENTARY INFORMATION

MONTICELLO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN DUE TO/FROM OTHER STUDENT GROUPS - MONTICELLO INDEPENDENT HIGH SCHOOL

Year ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Due To/From Student Group June 30, 2013
21st Century	\$ -	\$ 1,560	\$ 1,290	\$ 270
Alumni Association	500	-	-	500
Archery Club	572	4,073	4,611	34
Art Club	50	218	268	-
Athletic Program	-	2,857	1,184	1,673
Band	60	52	112	-
Baseball	324	5,820	6,143	1
Beta	201	150	351	-
Book Rental	3,945	226	1,931	2,240
Box Tops	56	737	591	202
Boys Athletics	2,124	19,943	19,045	3,022
Boys Basketball	8,519	15,815	16,787	7,547
Cheerleading	3,336	2,813	5,507	642
Co-Ed-Y	122	9,355	9,477	-
Concession	-	13,470	13,470	-
Counseling Basic Needs	1,007	70	575	502
Cross Country	170	1,002	645	527
District Tournament	-	11,771	11,771	-
E-Discovery	240	-	-	240
Eighth Grade	8	5,446	5,109	345
Elementary Girls Basketball	1,237	774	1,826	185
Elementary Office	6,545	4,976	8,079	3,442
FBLA	284	255	539	-
FCA	157	-	157	-
Flower Fund	120	455	550	25
Gifted	36	754	790	-
Girls Athletics	1,154	24,212	22,450	2,916
Girls Basketball	7,930	27,874	34,823	981
Guidance	2,137	2,040	3,639	538
Junior Beta	8	-	8	-
Junior Class	850	4,939	4,273	1,516
KJHS	132	-	-	132
Media Center	25	3,776	3,776	25
Monticello School Fund	4,089	10,485	13,328	1,246
MS Boys Basketball	2,405	-	1,905	500
MS Cheerleader	254	600	254	600
MS Girls Athletics	16	-	-	16
MS Girls Basketball	621	2,001	2,622	-
MS Student Council	217	-	-	217
MS Volleyball	758	2,271	1,772	1,257
NHS	215	275	490	-

See accompanying independent auditor's report.

MONTICELLO INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN DUE TO/FROM OTHER STUDENT GROUPS - MONTICELLO INDEPENDENT HIGH SCHOOL (CONTINUED)**

Year ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Due To/From Student Group June 30, 2013
PE Program	10	-	-	10
Preschool	146	-	141	5
Science	791	34	222	603
Senior Class	-	19,969	19,969	-
Seventh Grade	22	-	-	22
Sixth Grade	-	1,243	1,193	50
Soccer	209	931	90	1,050
Softball	3,805	3,211	3,423	3,593
Special Ed Cotton Candy	1,064	337	1,241	160
Staff Wellness	1,005	-	508	497
Student Council	59	89	106	42
Student STLP	241	-	-	241
TDD Grant	341	6,386	6,714	13
Teacher Fund	68	1,876	1,944	-
Trojan Store	430	716	717	429
Unite	7	-	-	7
Vending Machines	4,453	637	3,687	1,403
Volleyball	1,569	5,055	5,902	722
Yearbook	3,193	14,916	16,404	1,705
YOU	921	7	928	-
Subtotal	<u>\$ 68,758</u>	<u>\$ 236,472</u>	<u>\$ 263,337</u>	<u>\$ 41,893</u>

See accompanying independent auditor's report.

BUDGETARY COMPARISON SCHEDULES

MONTICELLO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources				
Taxes				
Property taxes	\$ 167,357	\$ 167,357	\$ 177,982	\$ 10,625
Motor vehicle taxes	45,017	45,017	42,992	(2,025)
Utility taxes	400,000	400,000	333,271	(66,729)
Other taxes	-	-	4,732	4,732
Earnings on investments	-	-	25	25
Other local revenues	-	-	73,427	73,427
State sources				
SEEK	4,237,633	4,237,633	4,244,640	7,007
On-behalf revenues	-	-	907,081	907,081
Other	20,000	20,000	22,436	2,436
Federal - indirect	10,000	10,000	12,577	2,577
Total revenues	<u>4,880,007</u>	<u>4,880,007</u>	<u>5,819,163</u>	<u>939,156</u>
Expenditures				
Instruction	3,309,135	3,309,135	2,670,444	638,691
Support services:				
Student	326,967	326,967	343,331	(16,364)
Instruction staff	139,972	139,972	64,676	75,296
District administration	322,801	322,801	484,589	(161,788)
School administration	310,228	310,228	310,263	(35)
Business	292,881	292,881	326,399	(33,518)
Plant operation and maintenance	549,232	549,232	355,296	193,936
Student transportation	316,803	316,803	297,634	19,169
Contingency	156,000	156,000	-	156,000
Total expenditures	<u>5,724,019</u>	<u>5,724,019</u>	<u>4,852,632</u>	<u>871,387</u>
Excess (deficit) of revenues over expenditures	<u>(844,012)</u>	<u>(844,012)</u>	<u>966,531</u>	<u>1,810,543</u>
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	948,012	948,012	2,540	(945,472)
Operating transfers in	-	-	477,423	(477,423)
Operating transfers out	(104,000)	(104,000)	(1,100,009)	996,009
Total other financing (uses)	<u>844,012</u>	<u>844,012</u>	<u>(620,046)</u>	<u>(426,886)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>346,485</u>	<u>346,485</u>
Fund Balance Deficit, July 1, 2012 (Restated)	<u>-</u>	<u>-</u>	<u>(351,009)</u>	<u>(351,009)</u>
Fund Balance Deficit, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,524)</u>	<u>\$ (4,524)</u>

See accompanying independent auditor's report.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUND

Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
State sources				
Other	\$ 1,255,693	\$ 1,255,693	\$ 294,025	\$ (961,668)
Federal - indirect	952,064	952,064	1,023,672	71,608
Total revenues	<u>2,207,757</u>	<u>2,207,757</u>	<u>1,317,697</u>	<u>(890,060)</u>
Expenditures				
Instruction	1,983,933	1,983,933	2,199,431	(215,498)
Support services:				
Instruction staff	18,232	18,232	12,682	5,550
Plant operation and maintenance	44,592	44,592	44,592	-
Student transportation	-	-	82,362	(82,362)
Business	82,362	82,362	-	82,362
Community service activities	78,638	78,638	78,638	-
Total expenditures	<u>2,207,757</u>	<u>2,207,757</u>	<u>2,417,705</u>	<u>(209,948)</u>
Deficit of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(1,100,008)</u>	<u>(1,100,008)</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	1,100,008	1,100,008
Operating transfers out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>1,100,008</u>	<u>1,100,008</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2013

	CFDA Number	Pass-Through Number	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through Kentucky Department of Education			
Special Education Cluster:			
Title I	84.010A	3102	\$ 113,800
Title I	84.01	3103	323,447
Title I School Improvement	84.010A	3202	14,206
Title I School Improvement	84.01	3303	53,597
IDEA B Private School	84.027	3371P	1,452
IDEA B	84.027A	3372	45,327
IDEA B	84.027	3373	153,172
IDEA B Preschool	84.173	3432	5,545
IDEA B Preschool	84.173	3433	14,201
IDEA B Discretionary COOP Grants	84.027	3353	98,574
Title III	84.365A	3452	4,091
Title III	84.365	3453	3,931
Title I Part C Perkins	84.048	3482	12
Title I Part C Perkins	84.048	3483	2,506
Rural & Low Income School	84.358	3503	15,685
Title II A Teacher Quality	84.367A	4012	8,414
Title II A Teacher Quality	84.367	4013	37,765
Edu Jobs	84.41	4411	3,000
21st CCLC	84.287	5501	7,578
21st CCLC Continuation Grant	84.287	5501J	8,619
21st CCLC Continuation Grant	84.287	5501X	12,497
21st CCLC Continuation Grant	84.287	5502C	47,413
21st CCLC Continuation Grant	84.287	5502X	40,731
Race to the Top	84.413	4521	14,241
Total U.S. Department of Education			1,029,804
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through State Department of Agriculture			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	0575-01-03	82,426
National School Lunch Program	10.555	0575-01-03	222,296
Non-monetary Food Donation			4,053
Total of U.S. Department of Agriculture			308,775
Total Expenditures of Federal Awards			\$ 1,338,579

MONTICELLO INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2013

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Monticello Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Monticello Independent School District.
2. Significant deficiencies and material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Monticello Independent School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for Monticello Independent School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
84.010	Title I Grants to Local Educational Agencies
84.027	Special Education Grants to States
10.555	National School Lunch Program

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Monticello Independent School District did not qualify as a low-risk auditee.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year ended June 30, 2013

FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

2013-1

Criteria:

Program directors should be provided with budget to actual comparison in the form of MUNIS reports on a periodic basis in order to ensure proper future spending of federal funds.

Condition:

During audit procedures performed on Title I, IDEA B, and School Lunch Program, it was noted that the criteria above was not followed. The program directors were not receiving MUNIS reports to compare their spending until the District became state managed in January 2013.

Cause:

The cause was due to the fact that the finance director was not reconciling with the budget nor providing the directors the MUNIS reports necessary to monitor spending.

Effect:

Due to the fact that the budget to actual spending was not monitored on a periodic basis, the budget directors were unable to properly manage the financial aspect of their programs.

Response:

This situation was corrected to a great extent upon the arrival of the KDE management assistance team in October and the interim finance officer in early December. Since the District merged with Wayne County Schools effective July 1, 2013, it is unlikely the situation will be repeated in the future. Wayne County Schools will be advised of the finding.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year ended June 30, 2013

2013-2

Criteria:

During our payroll testing it was determined that the school bookkeeper was the superintendent's sister. The superintendent approved the bookkeeper's contracts for employment and salary increases which appear to be a conflict of interest.

Condition:

Nepotism/Conflict of Interest (KRS 160.180) noncompliance

Cause:

Lack of Board supervision over superintendent's duties.

Effect:

Superintendent could approve salary increases for a relative and it not in compliance with state requirement.

Response:

Steps have been taken to prevent this in the future.

2013-3

Criteria:

In December 2012 the Kentucky Department of Education (KDE) took control of the District and also performed a management audit issuing their report dated November 12, 2012. This report communicated a plethora of weaknesses related to board governance and lack of financial oversight and responsibility by both the board and management. Ultimately, KDE implemented a plan of merger with Wayne County Board of Education effective July 1, 2013.

Condition:

The board was unable to approve a working budget for June 30, 2013 and the budget prepared was not accepted by the Kentucky Department of Education.

Cause:

Lack of Board adherence to state statutes.

Effect:

District ultimately became state managed and then merged into Wayne County Board of Education on July 1, 2013.

Response:

That is correct.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year ended June 30, 2013

2013-4

Criteria:

The District was not in compliance with KRS as the General Fund ended the year June 30, 2013 with a deficit balance of (\$4,525).

Condition:

Exceeding of budget per KRS 160.550

Cause:

District was in a deficit general fund balance at June 30, 2013.

Effect:

District is not in compliance with state requirement.

Response:

That is correct.

2013-5

Criteria:

The District's cash account was not reconciled to the general ledger at June 30, 2013 and an audit adjusting journal entry of approximately \$22,000 was made to adjust the cash balance to agree with the reconciled bank balance. We also noted the finance director was a check signer, had access to MUNIS and attempted to reconcile the bank account.

Condition:

Duties of finance director were not properly segregated or monitored by the board.

Cause:

Proper internal controls were not in place to properly reconcile the cash account during the year.

Effect:

Audit adjustment was recorded to reconcile cash account.

Response:

That is correct. The June 30, 2013 book balance was approximately \$22,000 less than the bank balance. In December, the Finance Director retired & an Interim was hired. The bank had not been reconciled for approximately 22 months at the time. During the time between December 4, 2012 & June 30, 2013, a monthly reconciliation was attempted. Unfortunately, the cause of the difference between the bank & the books was never determined. The only entry to cash is the one at June 30, 2013 as directed by the audit to increase book cash to equal the bank balance.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year ended June 30, 2013

Significant Deficiencies

2013-6

Criteria:

All expense and expense reimbursements should be approved by someone other than those making the request for the purchase or reimbursements.

Condition:

During our audit procedures, there were two instances, one under IDEA B and one under Title I, where the program director was approving their own expense and/or expense reimbursements.

Cause:

The lack of proper controls in place, which could allow directors to spend at their own discretion.

Effect:

Title I director could approve his expense reimbursement and IDEA B director approved purchase of an iPad for herself.

Response:

This situation was corrected to a great extent upon the arrival of the KDE management assistance team in October when a KDE representative started approving all purchases. Since the District merged with Wayne County Schools effective July 1, 2013, it is unlikely the situation will be repeated in the future. Wayne County Schools will be advised of the finding.

2013-7

Criteria:

Per school board procurement policy, a purchase order must be filled out and approved before an order is placed.

Condition:

During our audit procedures performed, there were several instances noted in the School Lunch Program, where the purchase orders were completed after the invoice was received. Purchases were not approved before they were made.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year ended June 30, 2013

Cause:

School lunch program did not have proper controls in place to ensure that procedures were followed. Also, due to lack of proper training and review to ensure policies were followed properly.

Effect:

The Food Service director was able to complete purchase orders after the products had arrived and been invoiced.

Response:

Since the District merged with Wayne County Schools effective July 1, 2013, it is unlikely the situation will be repeated in the future. Wayne County Schools will be advised of the finding.

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CURRENT YEAR FINDINGS

Year ended June 30, 2013

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

2013-1 above

2013-6 above

2013-7 above

MONTICELLO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

Year ended June 30, 2013

2012-1

Criteria:

The Kentucky Model Procurement Code (KRS Chapter 45A.080) requires that all contracts or purchases be awarded by competitive sealed bidding unless a determination is made by the board in writing that sealed bidding is not feasible, or if the aggregate amount of the contract does not exceed \$20,000 the Small Purchase (KRS Chapter 45A.385) procedures may be used.

Condition:

During the audit procedures performed, instances of this requirement not being followed were noted.

Cause:

Management failed to adhere to the Kentucky Model Procurement Code (KRS Chapter 45A.385) by not bidding a construction contract with an aggregate amount over \$20,000.

Effect:

The District failed to solicit bids for construction on the new baseball/softball field (a direct violation of the Kentucky Model Procurement Code (KRS Chapter 45A.080) where the aggregate contract amount exceeded \$20,000. This violation may have prevented the District from receiving the lowest price available.

Views of Responsible Officials:

The District will adhere to all requirement of the Kentucky Model Procurement Code (KRS Chapter 45A.385) in the future.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Members of the Kentucky Board of Education

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Monticello Independent School District as of and for the year ended June 30, 2013, which collectively comprise Monticello Independent School District's basic financial statements and have issued our report thereon date October 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Electronic Submission, and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Monticello Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monticello Independent School District's internal control. Accordingly we do not express an opinion on the effectiveness of Monticello Independent School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Members of the Kentucky Board of Education

Report on Compliance for Each Major Federal Program

We have audited Monticello Independent School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Monticello Independent School District's major federal programs for the year ended June 30, 2013. Monticello Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Monticello Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirement, Appendix III to the Independent Auditor's Contract - Electronic Submission, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Monticello Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Monticello Independent School District's compliance with those requirements

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Monticello Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of Monticello Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Monticello Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Monticello Independent School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-1 through 2013-5 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-6 and 2013-7 to be significant deficiencies.

Monticello Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Monticello Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable of any other purpose.

A handwritten signature in black ink, reading "Muenzger Chilton Muddley LLP". The signature is written in a cursive, flowing style.

Lexington, Kentucky
October 31, 2013

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Monticello Independent School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We identified deficiencies in internal control that we consider to be material weaknesses. (See schedule of findings and questioned costs.)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify deficiencies in internal control that we consider to be significant deficiency. (See schedule of findings and questioned costs.)

During our audit, we also became aware of the deficiencies in internal control other than the material weaknesses and significant deficiencies noted above as noted in the following pages, and other opportunities for strengthening internal controls and operating efficiencies.

This communication is intended solely for the information and use of management and the Kentucky Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to serve the District and are available at your convenience to answer questions or assist in the implementation of these suggestions.



Lexington, Kentucky
October 31, 2013

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Kentucky
Indiana
Ohio

Current Year Comments and Management Responses

Monticello Independent School District

MANAGEMENT LETTER COMMENTS

June 30, 2013

Activity Funds

Deposits

MCM noted that deposits were not being made on a timely basis. According to the “Accounting Procedures for Kentucky School Activity Funds”, all money collected by a teacher should be given to the school treasurer for daily deposit.

Management’s Response

This has been corrected. Training for all Bookkeepers, Coaches & other Activity Fund Sponsors has been conducted by Wayne County Schools on the “NEW REDBOOK” in July 2013.

Annual Report not Signed by Principal

The annual report for the combined activity funds was not signed by the principal as required.

Management’s Response

The final report was not completed prior to the Principal’s contract expiration. This should not happen again.

School Bookkeeper – Related Party

During our payroll testing, it was determined that the school bookkeeper was the superintendent’s sister. The superintendent approved the bookkeeper’s contracts for employment and salary increases which appear to be a conflict of interest.

Management’s Response

That is correct. Steps have been taken to prevent this in the future.

Current Year Comments and Management Responses

Monticello Independent School District

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2013

District-Wide

Single Audit Testing

During our testing, we noted that the program directors were not receiving the monthly project budget reports for their respective programs from the finance director. Therefore, the budget directors' were unable to effectively manage the programs and related budgets.

Management Response

This was corrected in January after the District came under state assistance.

Expense reimbursements

During our testing of cash disbursements, we noted two instances of the same individual requesting and approving their expense reimbursements.

Management Response

This was corrected in January after the District came under state assistance.

Payroll Testing

During testing, we noted one employee was not paid in accordance with the appropriate salary based on the approved salary schedule. Also, one employee personnel file could not be located.

Management Response

That is correct. Steps have been taken to prevent this in the future.

Current Year Comments and Management Responses

Monticello Independent School District

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2013

Board Governance and Financial Oversight

In December 2012, the Kentucky Department of Education (KDE) took control of the District and also performed a management audit issuing their report dated November 12, 2012. This report communicated a plethora of weaknesses related to board governance and lack of financial oversight and responsibility by both the board and management. Ultimately, KDE implemented a plan of merger with Wayne County Board of Education effective July 1, 2013.

Management Response

That is correct.

Deficit Balances

The District was not in compliance with KRS as the General Fund ended the year June 30, 2013 with a deficit balance of (\$4,525).

Managements Response

That is correct.

Cash Adjustment

The District's cash account was not reconciled to the general ledger at June 30, 2013 and an audit adjusting journal entry of approximately \$22,000 was made to adjust the cash balance to agree with the reconciled bank balance. We also noted the finance director was a check signer, had access to MUNIS and attempted to reconcile the bank account.

Management Response

That is correct. The June 30, 2013 book balance was approximately \$22,000 less than the bank balance. In December, the Finance Director retired & an Interim was hired. The bank had not been reconciled for approximately 22 months at the time. During the time between December 4, 2012 & June 30, 2013, a monthly reconciliation was attempted. Unfortunately, the cause of the difference between the bank & the books was never determined. The only entry to cash is the one at June 30, 2013 as directed by the audit to increase book cash to equal the bank balance.

Current Year Comments and Management Responses

Monticello Independent School District

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2013

KTRS Fine

The District was fined and paid approximately \$29,000 by KTRS for improperly categorizing payments to a District employee as retirement incentives, a violation of state law.

Management Response

That is correct. It happened prior to KDE management assistance.

Purchase Orders

During our testing of cash disbursements, we noted fifteen instances where a purchase order was not properly approved or could not be located.

Management Response

This should not be an issue since the merger has taken place.

Food Service Purchasing

We noted the food service director was completing purchase orders after items had been invoiced and received.

Management Response

This should not be an issue since the merger has taken place.

Prior Year Comments and Management Responses

Monticello Independent School District

MANAGEMENT LETTER COMMENTS

June 30, 2013

Condition 1

Statement of Condition: Monthly bank reconciliations were not prepared for District bank accounts.

Criteria for Condition: All District bank accounts should be reconciled monthly.

Cause of the Condition: The District did not prepare monthly manual bank reconciliations.

Effect of the Condition: District did not know their true book balance at any given time, checks that had cleared the bank were still being shown as outstanding and some distributions cleared for a different amount than was shown on the books.

Recommendation: The District should manually prepare monthly bank reconciliations for all District bank accounts on a timely basis.

Comment: Management will comply in the future.

Condition 2

Statement of Condition: Errors were encountered that precluded federally funded health insurance reimbursement from being paid from the appropriate sources and the general fund had to absorb the costs.

Criteria for Condition: The payroll system should post, at each payroll, the amount of federally funded health insurance reimbursement to the appropriate accounts.

Cause of the Condition: The payroll system was not properly posting the amount of federally funded health insurance reimbursement and this was not discovered in a timely manner; thus closing the window of time to request reimbursement.

Effect of the Condition: The window of time for some federally funded health insurance reimbursements had expired, thus leaving the general fund to cover the deficit.

Recommendation: District needs to ensure that they receive all reimbursements for federally funded health insurance from the appropriate sources.

Comment: Management will comply in the future.

Prior Year Comments and Management Responses

Monticello Independent School District

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2013

Condition 3

Statement of Condition: General Fund ended the fiscal year with a negative fund balance, greatly declining from the previous year.

Criteria for Condition: District Funds should end the year with a positive balance. Districts are required by law to keep a minimum 2% contingency in their budget.

Cause of the Condition: Economic conditions, such as funding cuts and increased costs of expenditures, compacted with the costs of recent land purchases and land improvements, have adversely affected the General Fund balance.

Effect of the Condition: A going concern issue arises as to whether the District will be able to continue to financially meet their needs.

Recommendation: The Board and administration should analyze the situation closely and work together to restore the General Fund balance.

Comment: Management is currently working with the state to improve the District's overall financial position.